

Message Text

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ACTION ARA-14

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TO SECSTATE WASHDC 9526

INFO TREASURY WASHDC

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SUBJECT: GOM ECONOMIC OBJECTIVES, 1978-82

1. SUMMARY: IN MID-FEBRUARY, THE SECRETARY OF PROGRAMMING AND BUDGET GAVE A SPEECH THAT HAS GENERALLY BEEN IGNORED BUT CONTAINS A STATEMENT OF GOM ECONOMIC OBJECTIVES FOR THE FIVE-YEAR PERIOD THAT WE WOULD LIKE TO BRING TO WASHINGTON'S ATTENTION. THE SPEECH FITS WITH THOSE GIVEN AT THE BANKERS' CONVENTION IN MID-MARCH AND TAKEN TOGETHER WITH MORE SPECIFIC POLICY ACTIONS GIVE A REASONABLY GOOD PICTURE OF MEDIUM-TERM OBJECTIVES.

2. ON FEBRUARY 14, RICARDO GARCIA SAINZ, SECRETARY OF PROGRAMMING AND BUDGET SPOKE BEFORE A MEXICAN CHAMBER OF COMMERCE GROUP ON THE SUBJECT, "PRODUCTION GOALS FOR THE FIVE YEARS, 1978-1982." IN THIS SPEECH, GARCIA SAINZ ELABORATED ON AND ALTERED SOMEWHAT THE VARIOUS OBJECTIVES MENTIONED IN HIS BUDGET SPEECH (SEE 77 MEXICO 21224).

3. THE OBJECTIVES GARCIA SAINZ LISTED INCLUDE:

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(A) GROSS DOMESTIC PRODUCT. 4.5 PERCENT REAL GROWTH IN 1977, 8 PERCENT REAL GROWTH IN 1981 AND 1982. 7 PERCENT AVERAGE REAL GROWTH IN THE FIVE-YEAR PERIOD.

(B) INVESTMENT. THE ABOVE GROWTH TARGETS WERE SAID TO IMPLY A 12 PERCENT ANNUAL INCREASE IN FIXED CAPITAL FORMATION, WITH PRIVATE FIXED CAPITAL FORMATION INCREASING

AT LEAST 11 PERCENT A YEAR ON AVERAGE. THIS IMPLIES AN INCREASE IN INVESTMENT AS A PERCENT OF GDP FROM 19 PERCENT IN 1977 TO 23 PERCENT IN 1982. THE TARGET IS TO CREATE 800,000 NEW JOBS ANNUALLY, PRESUMABLY BY THE EARLY 1980'S.

(C) AGRARIAN SECTOR. THE OBJECTIVE IS TO SUPPLY 100 PERCENT OF THE ESSENTIAL DEMANDS FOR FISH AND AGRICULTURAL PRODUCTS. THE OVERALL SECTOR IS TO GROW 5.5 PERCENT ANNUALLY, WITH FISHING GROWING BETWEEN 23 PERCENT AND 29 PERCENT ANNUALLY.

(D) INDUSTRY: OUTPUT OF PETROCHEMICALS IS TO GROW 28 PERCENT ANNUALLY, PETROLEUM OUTPUT IS TO INCREASE 19 PERCENT ANNUALLY AND THE OUTPUT CAPITAL GOODS IS TO INCREASE 18 PERCENT ANNUALLY. THE OUTPUT OF BASIC CONSUMER GOODS IS TO INCREASE 15 PERCENT ANNUALLY, FERTILIZER OUTPUT IS TO GROW 14 PERCENT, IRON AND STEEL, 10 PERCENT, MINING 12 PERCENT. ELECTRICITY OUTPUT IS TO GROW 10 PERCENT.

4. GARCIA-SAINZ SAID THE GOM WANTS THE PRIVATE SECTOR TO TAKE AN ACTIVE ROLE AND IS TAKING MEASURES TO STIMULATE INVESTMENT (A COMBINATION OF TAX INCENTIVES AND CREDIT MEASURES. SEE PARAGRAPHS 8 AND 9). HE WARNED HIS PRIVATE SECTOR AUDIENCE THAT IF THEY DID NOT INCREASE THEIR INVESTMENT, THE PUBLIC SECTOR "CANNOT RENOUNCE THE RIGHT TO REACTIVATE PRODUCTION AND EMPLOYMENT."
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5. GARCIA SAINZ ALSO SAID THE "DEVELOPMENT STRATEGY" WILL NOT HAVE SOCIAL COSTS, BUT RATHER "THE ACTION TO INFLUENCE AND CONDUCT THE CHANGE WILL ACT MORE ON THE ANNUAL INCREMENT IN RESOURCES..." WE PRESUME HE IS SAYING THAT PER CAPITA CONSUMPTION WILL NOT DECLINE, BUT THAT THE INCREASE IN INVESTMENT WILL COME FROM THE INCREASE IN OUTPUT IN EXCESS OF THE POPULATION GROWTH. HE LABELED AS THE PILLARS OF THE "DEVELOPMENT STRATEGY", THE PRODUCTION OF GOODS AND SOCIAL SERVICES AND THE EXPANSION OF EMPLOYMENT IN THE CONTEXT OF AN EQUITABLE DEVELOPMENT OF POLICIES REGARDING PRICES, WAGES, TAX AND PROFIT. HE DOES NOT SPELL OUT WHAT THESE ARE.

6. OTHER THAN THE ABOVE VAGUE REFERENCE TO PRICES, THERE IS NO STATEMENT ON INFLATION GOALS. REGARDING THE BALANCE OF PAYMENTS, GARCIA SAINZ SAID ONLY THAT THE USE OF PETROLEUM RESOURCES WILL PREVENT A FOREIGN EXCHANGE BOTTLENECK SUCH AS "BRAKED DEVELOPMENT IN RECENT YEARS."

7. TWO OTHER THEMES OF INTEREST DEVELOPED BY GARCIA SAINZ WERE THE NEED FOR GREATER ECONOMIC INDEPENDENCE AND THE

ADMINISTRATIVE REFORM. THE REMARKS ON THE OBJECTIVE REGARD-
ING AGRICULTURE RELATE TO THE FORMER; IN ADDITION, HE DE-
FINED GREATER ECONOMIC INDEPENDENCE "NOT AS AUTARKY OR
ISOLATION, BUT RATHER AS THE CAPACITY FOR SELF-DETERMINA-
TION." HE CONTINUED, SAYING THAT TO PRESERVE POLITICAL
INDEPENDENCE IT IS NECESSARY TO DEVELOPMENT KEY ECONOMIC
SECTORS, I.E., CAPITAL GOODS, RAW MATERIALS, ENERGY,
MEXICAN TECHNOLOGY, AND "APPROPRIATE MANAGEMENT OF EXTERNAL
FINANCIAL RELATIONS." REGARDING BETTER ADMINISTRATION AT A
NATIONAL LEVEL HE CALLED THIS NECESSARY TO TAKE FULL ADVAN-
TAGE OF THE COUNTRY NATURAL RESOURCES AND PROSPECTIVE FINAN-
CIAL RESOURCES, BOTH OF WHICH WERE LABELED AS ADEQUATE TO

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ATTAIN THE MEDIUM-TERM OBJECTIVES. THIS HAS BEEN A POPULAR
THEME OF THE PRESIDENT.

8. VARIOUS TAX AND CREDIT MEASURES HAVE BEEN TAKEN RECENT-
LY THAT INDICATE THE GOM IS IMPLEMENTING SPECIFIC POLICIES
IN RELATION TO THEIR MEDIUM-TERM OBJECTIVES. MEXICO 4017
REPORTED TAX INCENTIVES FOR THE CAPITAL GOODS INDUSTRIES.
SMALL AND MEDIUM INDUSTRIES (MAJORITY MEXICAN-OWNED) CAN
GET A SUBSIDY EQUAL TO 40 PERCENT OF THE IMPORT TAX ON
MACHINERY AND EQUIPMENT USED TO PRODUCE BASIC CONSUMER
GOODS. A 75 PERCENT SUBSIDY OF IMPORT TAXES IS AVAILABLE
ON FISHING BOATS AND PARTS. ALSO, A 100 PERCENT SUBSIDY
OF IMPORT TAXES ON MACHINERY USED FOR EXPORT PRODUCTION IS
AVAILABLE. THE ABOVE WERE ISSUED AT END-1977, BUT HAVE
RECEIVED LITTLE PUBLICITY. ON APRIL 30, A COMMITTEE WAS
CREATED TO COORDINATE AND EVALUATE THE PROGRAMS TO DEVELOP

A CAPITAL GOODS INDUSTRY. TREASURY WILL CHAIR THE COMMITTEE AND NACIONAL FINANCIERA WILL PROVIDE THE SECRETARY. OTHER MEMBERS ARE THE BANK OF MEXICO, THE NATIONAL FOREIGN TRADE BANK AND THE MEXICAN CORPORATION FOR INDUSTRIAL CREDIT (SOMEX, A PRIVATELY CHARTERED BANK THAT IS NOW 99 PERCENT GOM-OWNED).

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9. ON THE CREDIT SIDE, THE BANK OF MEXICO HAS FOLLOWED A SOMEWHAT EASY CREDIT POLICY IN PART BECAUSE IT HAS BEEN ABLE TO MEET THE TREASURY'S REQUIREMENTS WITHOUT DIFFICULTY. ALSO PLANS HAVE BEEN MADE, OR ARE UNDERWAY TO EXPAND THE ACTIVITIES OF THE VARIOUS GOVERNMENT TRUSTS THAT EXTEND CREDIT, IN PARTICULAR TO AGRO-BUSINESS, SMALL AND MEDIUM-SIZED INDUSTRIES AND TO THE CAPITAL GOODS INDUSTRIES.

10. THE GARCIA SAINZ SPEECH, IN CONJUNCTION WITH THOSE MADE AT THE MID-MARCH BANKERS' CONVENTION (SEE GUADALAJARA 404) ARE NOTEWORTHY ON SEVERAL ACCOUNTS: (1) THEY INDICATE A CERTAIN EUPHORIA ON THE PART OF GOM OFFICIALS FOR THE MEDIUM-TERM OUTLOOK, LARGELY BECAUSE OF THE OIL RESERVES; (2) THEY DO LAY DOWN SOME GUIDELINES AS TO GOM PRIORITIES; (3) THEY HAVE BEEN ACCOMPANIED BY MORE SPECIFIC MEASURES THAT GUIDE RESOURCES TO THESE PRIORITIES; (4) THEY INDICATE A GREATER DEGREE OF COORDINATION ON POLICIES THAN EXISTED UNDER THE FORMER SECRETARIES OF TREASURY AND PROGRAMMING; (5) THEY INDICATE A GROWING CONSENSUS ON WHAT THE MEDIUM-TERM DEVELOPMENT STRATEGY SHOULD BE, THOUGH THERE ARE STILL HOLES IN THIS, NOT TO MENTION QUESTIONS AS TO WHETHER THE EMERGING STRATEGY IS GOOD OR BAD, FEASIBLE OR UNATTAINABLE.

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